

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**U.S. UNDERWRITERS INSURANCE COMPANY
BISMARCK, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2003**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify
that I have compared the annexed copy of the Report of Examination of the

U.S. Underwriters Insurance Company

Bismarck, North Dakota

as of December 31, 2003, with the original on file in this Department and that the same is a
correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 9th day of
June, 2005.

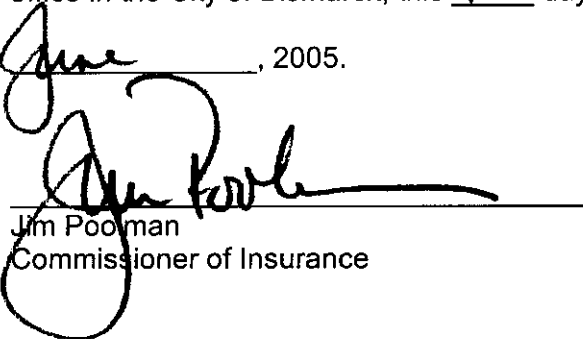

Jim Poolman
Commissioner of Insurance

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Bismarck, North Dakota
May 24, 2005

Honorable Alfred W. Gross
Chair, Financial Condition Committee
Subcommittee, NAIC
Commissioner, Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
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Honorable Jorge Gomez
Secretary, Midwestern Zone
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
GEF III – 2nd Floor
Madison, WI 53702

Honorable Jim Poolman
Commissioner of Insurance
North Dakota Department of Insurance
600 East Boulevard
Bismarck, ND 58505-0320

Commissioners:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**U.S. Underwriters Insurance Company
Bismarck, North Dakota**

as of December 31, 2003.

U.S. Underwriters Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 1998, by Examiners from the North Dakota Insurance Department.

The present examination was conducted as of December 31, 2003, by Examiners from the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the

Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 1999, to and including December 31, 2003, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Work papers provided by the Company's independent auditor, PricewaterhouseCoopers, L.L.P., were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

All recommendations made in the prior statutory examination report have been adequately addressed by the Company.

HISTORY

General

The Company was originally incorporated under the laws of the State of Delaware on January 10, 1972, and commenced business on December 27, 1977. Effective December 30, 1992, the Company changed its state of domicile from the State of Delaware to the State of North Dakota. The Company currently operates in the State of North Dakota as a stock insurance company.

Capital Stock

At December 31, 2003, 200,000 shares of common stock, with a par value of \$5 per share and an aggregate value of \$1,000,000 were issued and outstanding.

Dividends to Stockholders

Dividends paid to stockholders during the period under examination were as follows:

<u>Year</u>	<u>Dividend</u>
1999	\$2,000,000
2001	\$2,000,000

Management

The Company's Articles of Incorporation provide that the Board of Directors shall consist of not less than 3 and no more than 21 persons.

Board of Directors

Directors serving as of December 31, 2003, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Thomas P. Nerney Villanova, PA	Chairman, President and Chief Executive Officer U.S. Underwriters Insurance Company
Louis F. Rivituso West Chester, PA	Senior Vice President, Treasurer and CFO U.S. Underwriters Insurance Company
James R. Holt, Jr. Wayne, PA	Executive V. P. and Chief Underwriting Officer U.S. Underwriters Insurance Company
David S. Charlton Chester Springs, PA	Executive Vice President U.S. Underwriters Insurance Company
John G. Donahue, Jr. Havertown, PA	Vice President, Chief Marketing Officer U.S. Underwriters Insurance Company
Shelley L. Palma Wayne, PA	Senior Vice President U.S. Underwriters Insurance Company
John R. Petersen, Jr. Malvern, PA	V. P., Secretary and Chief Compliance Officer U.S. Underwriters Insurance Company
Thomas C. Snyder Exton, PA	Vice President U.S. Underwriters Insurance Company
Steven R. Zodtner Wayne, PA	Executive V. P. and Chief Technology Officer U.S. Underwriters Insurance Company

Officers

The Bylaws provide that the officers of the corporation shall be a President, a Vice President, a Secretary, a Treasurer, and such other Officers and Assistant Officers as may be deemed necessary may be elected or appointed by the Directors.

Officers serving as of December 31, 2003, were as follows:

President	Thomas P. Nerney
Secretary, Vice President	John R. Petersen
Treasurer, Senior V.P.	Louis F. Rivituso
Executive Vice President	James R. Holt, Jr.
Executive Vice President	David S. Charlton
Executive Vice President	Steven R. Zodtner
Senior Vice President	Shelley L. Palma
Senior Vice President	Jack T. Carballo

Conflict of Interest

The Company maintains a formal conflict of interest policy and an established procedure for disclosure of any material interest or affiliations that might tend to influence a board member, officer, or employee in the performance of their duties. Conflict of interest statements executed during the period under examination were reviewed with no material conflicts noted.

Board of Directors, Stockholders and Committee Minutes

The minutes of the Board of Directors, stockholders, and committee meetings for the period under examination were read and no exceptions were noted.

Articles of Incorporation and Bylaws

The following amendments to the Articles of Incorporation were adopted by the shareholders during the period under examination:

Article II – Amended to update the address of the Company's principal place of business.

Article VIII – Restated to authorize the Company to engage in any business permitted by North Dakota law or regulations.

Article II – Amended to change the Company's registered office and registered agent.

The following amendments to the Bylaws were adopted by the Company's sole shareholder during the period under examination:

Article I – Restated relating to the location of the Company's administrative office.

Article II, Section I – Restated relating to the time and place of the stockholders' annual meeting.

Article II, Section 9 – Restated relating to stockholder voting.

Article II, Section 12 – Added to provide for a written consent of stockholders in lieu of meeting.

Article III, Section 14 – Added to authorize Board of Director action by written consent.

AFFILIATED COMPANIES

Holding Company System

Berkshire Hathaway, Inc. became the Company's ultimate parent through a plan of merger completed August 8, 2000, with U.S. Investment Corporation.

The following is an abbreviated organization chart showing the relationship of the Company and U.S. Investment Company within the Berkshire Hathaway, Inc. holding company system.



INTERCOMPANY AGREEMENTS

Expense Sharing

Effective November 17, 2003, the Company entered into an expense sharing agreement with United States Liability Insurance Company and Mount Vernon Fire Insurance Company for the purpose of allocating expenses incurred for shared offices, facilities and staff. The agreement provides that the allocation of general expenses incurred by the three companies shall be on the basis of the net premium writings of each company.

Federal Income Tax Agreement

The Company entered into a Joint Tax Return Agreement with United States Liability Insurance Company, Mount Vernon Fire Insurance Company and Berkshire Hathaway, Inc. effective November 17, 2003. The agreement authorizes the Treasurer of Berkshire Hathaway, Inc. to file a joint tax return on behalf of the three named companies based upon the taxable profit and loss of each company.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2003, the Company along with other subsidiaries of the U.S. Investment Corporation carried \$2,000,000 coverage for loss resulting from dishonest or fraudulent acts committed by employees. The policy has a deductible of \$75,000. The coverage is in compliance with NAIC guidelines.

Other insurance coverage covering the Company appeared adequate.

PENSION, STOCK OWNERSHIP, AND OTHER INSURANCE PLANS

All employees of the Company are considered to be employed by United States Liability Insurance Company, an affiliate of the Company. Employee benefits provided by United States Liability Insurance Company include group medical and dental coverage, life, accidental death and dismemberment, short-term and long-term disability, a 401 (k) plan and a profit sharing plan. The Company contributes up to 15 percent of each employee's annual salary to the profit sharing plan. Costs associated with these plans are allocated to the Company and Mount Vernon Fire Insurance Company based on premiums written.

STATUTORY DEPOSITS

Deposits maintained by or through regulatory agencies are as follows:

State	Type of Asset	Fair Value	Statement Value
New York	Bond	\$3,000,930	\$3,029,213
North Dakota	Certificate of Deposit	1,000,000	1,000,000

The deposit held by the State of New York is for the benefit of policyholders, claimants, and/or creditors of that jurisdiction.

TERRITORY AND PLAN OF OPERATION

At December 31, 2003, the Company held a Certificate of Authority from the State of North Dakota to underwrite the following lines of business: accident and health (nursing home), fire, allied lines, multiple peril, liability (not auto), auto liability (BI and PD), and auto physical damage.

The Company is licensed in the States of Delaware, Pennsylvania, and New York as a nonadmitted insurer.

Direct premiums written by state during the period under review were as follows:

State	2003	2002	2001	2000	1999
Delaware	\$566,625	\$508,821	\$392,235	\$270,612	\$154,870
New York	65,410,945	43,319,508	27,362,528	18,091,244	14,944,336
North Dakota	131,715	78,759	39,319	17,918	11,269
Pennsylvania	15,401,886	12,709,503	8,095,463	5,561,256	4,498,261
Total	\$81,511,171	\$56,616,591	\$35,889,545	\$23,941,030	\$19,608,736

The Company solicits business through independent agents who have authority to bind insurance without approval of the Company. At December 31, 2003, the Company had approximately 270 independent agents with binding authority.

REINSURANCE

At December 31, 2003, the Company had the following principal reinsurance treaties in force:

Ceded Reinsurance

Type:	Property Per Risk Excess of Loss	
Reinsurers:	Hannover Ruckversicherung AG	20%
	Everest Reinsurance Co.	25%
	GE Reinsurance Corporation	30%
	XL Reinsurance America Inc.	25%
Scope:	Commercial Property, Commercial Inland Marine, Excess Commercial Property, Antique Auto Physical Damage	
Coverage:	First Excess:	\$300,000 excess of \$100,000
	Second Excess:	\$600,000 excess of \$400,000
	Third Excess:	\$2,000,000 excess of \$1,000,000
Premium:	First Excess - 15%, Second Excess – 6.15%, Third Excess - 5.77%	
Commissions:	35%. The first layer contains a 40% profit commission provision computed on premiums ceded after allowing for ceding commissions, incurred losses and a 25% allowance for management expenses incurred by the reinsurers.	
Effective Date:	January 1, 2003	
Termination:	At any January 1 anniversary by giving not less than 90 days written notice	

Type: **Property Per Occurrence Excess of Loss**

Reinsurer:	Hartford Fire Insurance Company	50%
	GE Reinsurance Corporation	50%

Scope: Commercial Property, Commercial Inland Marine, Excess Commercial Property, Antique Auto Physical Damage, Commercial Multiple Peril (Section 1 only), Dwelling Package (Property only), Apartment/Condo Renters Package (Section 1 only), Auto Physical Damage.

Coverage: \$9,000,000 excess of \$1,000,000

Premium: 1.43% of subject earned premium

Effective Date: January 1, 2003

Termination: At any January 1 anniversary by giving not less than 90 days written notice

Name: **Casualty Excess of Loss**

Type: Excess of Loss

		<u>Layer 1 & 2</u>	<u>Layer 3</u>
Reinsurers:	XL Reinsurance America Inc.	35%	10%
	Hannover Ruckversicherung AG	20%	10%
	Everest Reinsurance Company	20%	10%
	National Indemnity Ins. Co.	25%	
	Hartford Fire Ins. Co.		20%
	American Re-Insurance Company		50%

Scope: Commercial Liability, Commercial Umbrella, Liquor Liability, Commercial Package (Section II), Businessowners (Section II), Directors and Officers, Errors and Omissions, Employer's Professional Liability, Employer's Liability, Personal Liability, Homeowners (Section II only), Dwelling Package (Section II only), Automobile Excess Liability and Antique Automobile Liability.

Coverage:	First Excess:	\$600,000 excess of \$400,000
	Second Excess:	\$5,000,000 excess of \$1,000,000
	Third Excess:	\$5,000,000 excess of \$6,000,000

Premium:	First Excess - 5.4% (net)
	Second Excess - 3.6% (net)
	Third Excess - pro-rata

Commissions: 30% for the third layer

Effective Date: January 1, 2003

Termination: At any January 1 anniversary by giving not less than 90 days written notice

Name: **Package Treaty**

Type: Excess of loss

Reinsurers: XL Reinsurance America, Inc 50%
Everest Reinsurance Company 50%

Scope: Commercial Multi-Peril Policies (Section I only)

Coverage: First Excess: \$300,000 excess of \$100,000
Second Excess: \$600,000 excess of \$400,000
Third Excess: \$2,000,000 excess of \$1,000,000

Premium: First Excess 14.5% (net)
Second Excess 2.8% (net)
Third Excess 1.3% (net)

Commissions: The first layer contains a 40% profit commission provision on premiums ceded less incurred losses and a 25% allowance for reinsurer's management expenses.

Effective Date: June 1, 2002

Termination: At anniversary, by either party, with 90 days written notice.

The reinsurance agreements contain the insolvency clause required by N.D. Cent. Code § 26.1-02-21 and all of the required clauses set forth in the *NAIC's Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The trial balance of the general ledger for the year 2003 was traced to the statutory annual statement with no differences noted.

The Company was audited by the accounting firm of PricewaterhouseCoopers LLP. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

The Company's accounting system is fully automated and produces the general ledger and various premium and statistical reports. The general ledger is maintained using the accrual basis of accounting.

FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2003

Underwriting and Investment Exhibit, Year 2003

Reconciliation of Capital and Surplus, January 1, 1999 through December 31, 2003

U.S. Underwriters Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2003

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 20,259,163		\$ 20,259,163
Common stocks	13,407,000		13,407,000
Cash	160,328,324		160,328,324
Investment income due and accrued	103,535		103,535
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	15,442,889	\$2,727,277	12,715,612
Reinsurance: Amounts recoverable from reinsurers	97,725		97,725
Net deferred tax asset	3,017,026		3,017,026
Totals	<u>\$212,655,662</u>	<u>\$2,727,277</u>	<u>\$209,928,385</u>

U.S. Underwriters Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2003

Losses		\$ 57,178,148
Loss adjustment expenses		20,433,868
Commissions payable, contingent commissions and similar charges		684,737
Taxes, licenses, and fees		6,018
Current federal and foreign income taxes		2,550,607
Unearned premiums		38,888,683
Ceded reinsurance premiums payable		(372,769)
Payable to parent, subsidiaries, and affiliates		<u>921,087</u>
Total liabilities		\$ 120,290,379
Common capital stock	\$ 1,000,000	
Gross paid in and contributed surplus	14,000,000	
Unassigned funds (surplus)	<u>74,638,006</u>	
Surplus as regards policyholders		<u>89,638,006</u>
Total		<u><u>\$209,928,385</u></u>

**U.S. Underwriters Insurance Company
Underwriting and Investment Exhibit
for the Year Ended December 31, 2003**

UNDERWRITING INCOME

Premiums earned		\$56,540,188
Deductions:		
Losses incurred	\$22,259,506	
Loss expenses incurred	9,691,001	
Other underwriting expenses incurred	<u>20,721,919</u>	
Total underwriting deductions		<u>52,672,426</u>
Net underwriting gain or (loss)		\$3,867,762

INVESTMENT INCOME

Net investment income earned	\$4,899,750	
Net realized capital gains or losses	7,684,132	
Net investment gain or (loss)	<u>12,583,882</u>	
Net income before federal income taxes		\$ 16,451,644
Federal income taxes incurred		<u>8,160,807</u>
Net income		<u>\$ 8,290,837</u>

U.S. Underwriters Insurance Company
Reconciliation of Capital and Surplus Accounts

	December 31				
	2003	2002	2001	2000	1999
Capital and surplus, December 31, previous year	\$78,101,355	\$74,039,913	\$70,193,760	\$62,755,297	\$57,467,558
Net income	8,290,837	3,212,906	6,123,339	7,391,264	7,341,050
Change in net unrealized capital gains or (losses)	2,904,618				
Change in net deferred income tax	1,179,292	1,037,995	1,773,739		
Change in nonadmitted assets	(838,094)	(189,459)	(2,050,925)	47,199	(53,311)
Dividends to stockholders			(2,000,000)		(2,000,000)
Net change in capital and surplus for the year	\$11,536,653	\$4,061,442	\$3,846,153	\$7,438,463	\$5,287,739
Capital and surplus, December 31, current year	\$89,638,008	\$78,101,355	\$74,039,913	\$70,193,760	\$62,755,297

NOTES TO FINANCIAL STATEMENTS

Assets

Bonds

At December 31, 2003, the Company did not have a custodial agreement for the safekeeping of its assets with Wachovia Bank. Instead it relied upon a November 19, 2003, custodial agreement between Wachovia and upstream parent, U.S. Liabilities Insurance Company. The Company, however, was not a specified party to that agreement although the Company's account number with Wachovia was included under the agreement pursuant to a U.S. Liability Insurance Company memorandum dated November 20, 2003.

The Wachovia custodial agreement with U.S. Liabilities Insurance Company was not authorized by a Board of Directors resolution as required by N.D. Admin. Code § 45-03-23-02(2).

During the course of this examination, the Company executed a Custodial Agreement dated February 7, 2005, with Wachovia Bank that is in compliance with N.D. Admin. Code § 45-03-23-02.

Agents' Balances in Course of Collection

Testing determined that uncollected premiums over 90 days due were not always determined in accordance with SSAP No. 6 of the NAIC's *Accounting Practices and Procedures Manual*. In some instances the due date of a premium receivable was not the effective date.

It is recommended that for the purpose of aging agents' balances, due dates be determined in accordance with SSAP No. 6, paragraph 7.

Net Deferred Tax Asset

Deferred taxes were incorrectly reported on page 2, line 15.2, of the Annual Statement as follows:

- Gross deferred tax assets were not reported in Column 1 and non-admitted deferred tax assets were not reported in Column 2, on line 15.2
- Admitted deferred tax assets were not computed in accord with SSAP No. 10, paragraph 10 and Exhibit A of the NAIC's *Accounting Practices and Procedures Manual*.
- Net deferred tax assets were understated by \$400,312 due to the following items:

SSAP 10, paragraph 10c, admitted gross DTA equal to DTL	\$1,016,616
Gross DTA for vacation accrual	112,270
Overstatement of reversal factor for Loss/LAE reserve	(728,574)
	<u>\$ 400,312</u>

In addition, the Company incorrectly classified the \$1,016,616 tax on unrealized gains as an adjustment to federal income taxes incurred rather than deferred taxes, resulting in an understatement of federal income tax expense reported on page 4, line 19 of the annual statement.

It is recommended that the Company report deferred taxes and disclose the income tax information required under Note 9 to the Notes to the Financial Statements in compliance with SSAP No. 10 in the NAIC's *Accounting Practices and Procedures Manual*.

Liabilities

Losses and Loss Adjustment Expenses

This examination projected the Company's gross reserves for unpaid losses using the following methods: incurred loss development, paid loss development, incurred Bornhuetter/Ferguson, and paid Bornhuetter/Ferguson. The analysis of net reserves relied on the same methods plus an additional method that compares the current case net to gross relationship and projects this relationship to ultimate. Development factors were based on the Company's development data plus that of other members of the U.S. Investment Corporation group. The Other Liability (occurrence), Other Liability (claims made) and special property lines of business were analyzed. Unallocated loss adjustment expense reserves were projected using percentage relationships of loss reserves.

This examination projected the Company's loss and loss adjustment expense reserves on both a gross and net basis. The reserve review found the gross and net loss and loss adjustment expense reserves were adequate.

CONCLUSION

The financial condition of the Company, as of December 31, 2003, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$209,928,385</u>
Total Liabilities	\$120,290,379	
Surplus as Regards Policyholders	<u>89,638,006</u>	
Liabilities, Surplus, and Other Funds		<u>\$209,928,385</u>

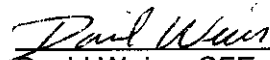
No change was made in the amounts reported by the Company in its 2003 annual statement.

Since the last examination conducted as of December 31, 1998, the Company's admitted assets have increased \$92,610,156, its total liabilities have increased \$60,439,708, and its surplus as regards policyholders has increased \$32,170,448.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Carole Kessel, CPA, Chief Examiner, and Mike Andring, ACAS, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,



David Weiss, CFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that for the purpose of aging agents' balances, due dates be determined in accordance with SSAP No. 6, paragraph 7.

It is recommended that the Company report deferred taxes and disclose the income tax information required under Note 9 to the Notes to the Financial Statements in compliance with SSAP No. 10 in the NAIC's *Accounting Practices and Procedures Manual*.